

Message Text

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SUBJECT: FINNISH REACTIONS TO SWEDISH DEVALUATION

REF: HELSINKI 1828

1. SUMMARY. FINLAND'S FOREIGN EXCHANGE MARKETS ARE CLOSED AS A ROUND OF CONSULTATIONS BETWEEN GOVERNMENT, INDUSTRY AND LABOR TAKES PLACE TO WORK OUT A POLICY ON THE VALUE OF THE FINNMARK, FOLLOWING THE DEVALUATIONS OF THE OTHER SCANDINAVIAN COUNTRIES. THE PREPONDERANCE OF PUBLIC COMMENT FROM INDUSTRIAL AND FINANCIAL LEADERS FAVORS DEVALUATION. THE MAIN COMPLICATION STEMS FROM THE LIKELIHOOD THAT A DEVALUATION OF ANY SIZE WOULD LEAD TO RENEGOTIATION OF LAST SPRING'S TWO-YEAR LABOR AGREEMENTS. END SUMMARY.

2. INITIAL OFFICIAL RESPONSE IN FINLAND TO THE SWEDISH, DANISH
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AND NORWEGIAN DEVALUATIONS HAS BEEN ONE OF CAUTION AND THE ATTEMPT TO APPEAR TO BE FREE TO MAKE AN INDEPENDENT DECISION ON FINNISH DEVALUATION. THE THREE GROUPS IN GOVERNMENT THAT FORMALLY DECIDE ON DEVALUATION MEET TODAY TO EVALUATE THE SITUATION. PROCEDURALLY, THE BOARD OF MANAGEMENT OF BANK OF FINLAND SUBMITS DEVALUATION PROPOSAL TO BANK SUPERVISORS OF PARLIAMENT, WHO EITHER APPROVE

AND PASS PROPOSAL TO THE CABINET OR REJECT IT. AS DEMONSTRATED IN LAST APRIL'S SMOOTHLY HANDLED DEVALUATION, AGREEMENT AMONG GOVERNMENT, THE BANK OF FINLAND, INDUSTRY AND LABOR ARE ESSENTIAL, AND WILL BE SOUGHT IN FORMAL AND INFORMAL CONSULTATIONS. MEANWHILE, FOREIGN EXCHANGE TRANSACTIONS HAVE BEEN SUSPENDED.

3. ON SUNDAY, FOLLOWING ANNOUNCEMENT OF THE SWEDISH DEVALUATION, LEADING INDUSTRIAL AND FINANCIAL OFFICIALS SPOKE IN FAVOR OF FINNISH DEVALUATION. TIMO LAATANEN, MANAGING DIRECTOR OF THE COOPERATION OF FINNISH INDUSTRIES, COMMENTED THAT THE FINNMARK IS OVERVALUED AND THE SWEDISH DEVALUATION MAKES THINGS WORSE. HE ADDED THAT RHOUGH THE SITUATION IS COMPLICATED BY INCLUSION IN THIS SPRING'S LABOR CONTRACTS OF A CLAUSE NULLIFYING THEM IN EVENT "ESSENTIAL" CHANGE IN THE EXTERNAL VALUE OF THE FINNMARK, IT WOULD BE DIFFICULT TO DEAL WITH THE ECONOMIC SITUATION WITHOUT DEVALUATION. OFFICIALS OF THE WOOD-PROCESSING INDUSTRY, METAL AND ENGINEERING INDUSTRY, AND TEXTILES INDUSTRY ASSOCIATIONS NOTED THE ADVERSE EFFECTS ON THEIR COMPETITIVENESS WERE FINLAND NOT TO DEVALUE.

4. LABOR'S MAIN INTEREST IS IN PROTECTING
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ITSELF AGAINST ANOTHER LOSS OF REAL INCOME THROUGH DEVALUATION. THE UNIONS ACCEPTED THE SIX-PERCENT DEVALUTATION IN APRIL WITHOUT RENEGOTIATING THE WAGE AGREEMENTS. KEIJO LIINAMAO, THE GOVERNMENT'S RESPECTED INCOMES MEDIATOR, HAD HELPED ACHIEVE THIS RESULT WITH HIS INTERPRETATION OF "ESSENTIAL" CHANGE IN THE FINNMARK AS A TEN-PERCENT OR MORE DEVALUATION. THERE ARE INDICATIONS THAT THIS TIME LABOR WILL START COUNTING AT SIX PERCENT RATHER THAN ZERO. LIINAMAO COMMENTED THAT ADJUSTMENT NEGOTIATIONS WOULD REQUIRE AN EXTENDED PERIOD OF TIME SHOULD FINLAND DEVALUE.

5. MAUNO KOIVISTO, GOVERNOR OF THE BANK OF FINLAND, SUMMED HIS VIEW OF THE SITUATION UP SUCCINCTLY ON SUNDAY. HE SAID THAT THE SWEDISH DEVALUATION IS NOT IN CONFORMITY WITH FINNISH INTERESTS AND LEAVES THE FINNISH GOVERNMENT WITH ONLY A NUMBER OF POOR ALTERNATIVES.
RIDGWAY

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